ON-SITE PROCEDURES

The IS EIC must direct and control the on-site examination to ensure that its objectives and scope are met. Examiners must gather information to support the conclusions reached during the examination. All conclusions must be properly documented and maintained in the examination's working papers.

Examiners may obtain documentation by inspection observation, inquiry, confirmation, or analytical tests. Various forms of support may be collected, whether physical, testimonial, documentary, or analytical and maintained in the working papers. In obtaining and evaluating information, the examiner must select the strongest documentation for inclusion in the working papers.

To maintain an adequate level of control over the examination, the IS EIC must:

1. Meet with the senior IS officer or designee at the beginning of the examination.

2. Coordinate with examination staff the review of the IS request letter materials obtained from the institution or service bureau.

3. Make adjustments to examination scope as necessary.

4. Notify the IS examination manager and safety and soundness EIC, if appropriate, if significant changes are anticipated in scope, staffing needs, duration, etc.

5. Ensure that information requested from management is received and distributed promptly.

6. Throughout the examination:

   - Review continuously the work flow, findings, conclusions, and actual versus budgeted time, and take appropriate actions for the effective use of time.

   - Discuss all items of concern with assisting examiners, the IS examination manager, and the safety and soundness EIC, so that accurate information is presented at the closing conference.

   - Keep senior and IS management informed of significant issues during the examination.

   - Determine that all examination work is being prepared in accordance with policies, including workprograms, workpapers, conclusion memos or exception sheets, draft comments, report pages, and time sheets.

   - Review all examination work as it is being completed, including workprogram sections, conclusion memos, draft comments, and report pages.

   - Discuss the closing meeting agenda with management prior to the actual meeting.

7. Attend board of directors meetings as appropriate.

8. On separate institution and service bureau examinations, schedule a closing conference with IS management and prepare the agenda.

9. Notify appropriate attendees (i.e., institution or servicer bureau management, agency manager and staff) of the closing conference location, date, and time.

10. When warranted, inform the CEO that a formal presentation of the examination results should be scheduled for the next meeting of the board of directors.

11. Recommend administrative actions, if appropriate.

12. Complete the preliminary draft of the IS ROE in "camera ready" form and provide copies to the IS

examination manager and safety and soundness EIC on concurrent examinations.

13. Incorporate review comments and forward the ROE to the IS examination manager and safety and soundness EIC.

TIME AND BUDGET

The supervision by risk approach requires the use of examination time-planning techniques, beginning with pre-examination analysis, to more effectively manage and control an examination. Pre-examination analysis is stressed as a way to reduce on-site examination time and enhance the scoping process.

Once the scope is established, the IS EIC or IS manager will establish staffing requirements, time frames, and examiner resource budgets. The IS EIC must record and report all IS examination hours and see that examination objectives are achieved within budget. On-site and off-site hours should be summarized for inclusion in the Administrative section of the ROE.

If preliminary conclusions determine that management controls are lacking in all areas, consideration should be given to suspending or terminating the examination. When time standards prove too short, examiners should forward a request for additional time with justification to their manager.

WORKPAPER GUIDELINES

Workpapers are used to document IS examination procedures and support specific conclusions. They also serve as a reference source during the ROE review process. The IS EIC and IS examiners must organize and index workpapers in a logical and orderly manner. The completeness, accuracy, and clarity of the workpapers also serve as a tool to evaluate the performance of the individual members of the examination team.

Workpapers should be prepared for every area reviewed during the examination. They must provide sufficient documentation for a reviewer (supervising IS examiner, field manager, non-IS examiner, etc.) to understand what was done, why it was done, and how conclusions were reached. A high level index detailing all areas reviewed should be placed at the beginning of the workpapers.

At a minimum, the workpapers for each area should contain:

- An index for each area covered.

- A summary of conclusions and management's response.

- A copy of the conclusions written by the examiner assigned to each area.

- A copy of the completed workprogram section for that area.

- Documents that support each procedure performed.

- Documents that support the specific comments and conclusions of the examiner completing the workprogram section.

Workpapers are the property of the agency and should be secured at all times. The IS examiner may not release examination workpapers or reports to non-agency persons without proper authorization. Exceptions to this rule are joint examinations with other agencies. Copies of workpapers or any internal memoranda should never be released to institution personnel. The IS EIC should contact appropriate agency management for information on disclosure.

The following guidelines should be used to prepare workpapers:

- All workpapers should be titled, dated and identify the institution, examination date, and person responsible for their preparation.

- Workpapers should contain only essential information. Manuals and lengthy policies may be documented by including a copy of the table of contents or cover page for each.

- Items with deficiencies require more documentation.

- Conclusion memos, including operating deficiencies, should be cross-indexed and referenced to applicable workpapers.

- All documents in the workpapers should include an explanation of their relevance to examination results or conclusions.

- Other information may include the EIC information report, copies of the notification and pre-examination letters, a copy of the closing meeting outline, and a list of data center personnel and phone extensions.

Workpapers should be assembled, indexed, and cross-indexed to other workpapers to permit a reviewer to locate work performed (see Workpapers Organization/Format section which follows). All reported comments should be cross-referenced to the conclusion memos filed in the workpapers. All workpapers should be reviewed by the IS EIC prior to leaving the examination site.

WORKPAPERORGANIZATION/FORMAT

In general, the workpapers should be organized into the following sections.

Report of Examination

This section should contain all information relative to the ROE. Only the final version of the IS examination report is filed in the workpapers. The IS EIC should include recap notes of the exit conference and analysis of the adequacy of management's response to the recommendations for corrective action. All information should be filed in chronological order.

IS Examination Scope

This section should contain the IS examination scope memo, cross-referenced to other sections of the workpapers.

Summary of Conclusion Memos

This section should contain the summary of conclusions and accompanying conclusion memos.

Workpapers

This section should be organized in the order of the FFIEC IS Examination Workprogram sections, consistent with the examination scope.

General File (Exhibits)

This section should contain the general information obtained during the pre-examination preparation phase, and any other information gathered during the examination that is not used in the workpapers section. The Exhibits sections should be updated during each examination and obsolete material discarded.

Administrative

The administrative section should contain:

- Information for next examination.

- Examiners' assignment schedule and time control log.

- Correspondence, such as:

  – IS examination notification.
  – Examination request input sheet.
  – Appropriate financial information.
  – Listing of customers for service bureaus.
  – Ratings.
  – Other correspondence, etc.

WORKPAPER REVIEW

The IS EIC reviews examiner workpapers at the institution or service bureau for compliance with the following guidelines:

- Clarity in communicating IS examination objectives and procedures.

- Adequacy in documenting and cross-referencing information used to substantiate reported findings, conclusions, and ratings.

- Completeness and organization of work.

- Unnecessary documents that should be removed.

The IS manager is responsible for reviewing workpapers or delegating that it be done. The review should ensure that the overall quality, competency, and consistency of workpapers is consistent with member agency standards or with the FFIEC.

CONCLUSION MEMOS

As examination procedures are performed, summary notes and conclusions may be written in the "Comments" column of the workprogram or on a separate sheet with the appropriate reference information. IS control deficiencies should be documented in conclusion memos. This should summarize the control objective, important facts and findings, conclusions and, if applicable, recommendations. These items should be discussed with management and its response/corrective action included in the conclusion memos.

Conclusion memo comments should provide clear, concise summaries of problem areas and, when appropriate, recommendations for correction. Results should be substantiated and cross-referenced to supporting information in the workpaper documents. All conclusion memos should be cross-referenced and listed in the Summary of Conclusions.

Conclusion memos should contain:

- Heading Information

    – Name of Institution:
    – Reference Number:
    – Date of Examination:
    – Examiner Initials:
    – Work Program Section:

- Description of Conclusions:

    – *Condition* – The circumstances surrounding the issue should be stated in sufficient detail to permit the reader to understand what was found or what happened and why it is relevant.

    – *Criteria* – If the condition involves a deviation from a law or regulation, it should be identified and relevant portions stated.

    – *Cause* – If the effects are considered significant, the cause of the condition should be stated clearly and concisely.

    – *Effect* – The effects of the condition should be described in sufficient detail to establish their significance (or insignificance) and relationship to the condition.

- Examiner's Recommendations

    Proposed solutions to correct, or reduce the problems should be developed in discussions with management and stated in the recommendations section.

- Management's Response

    The examiner should summarize management's initial response when preparing conclusion memos. However, a written response may be requested for significant findings and conclusions.

After the conclusion memos have been reviewed with and approved by the EIC, discussions with management can be held. Management's response should be summarized and documented, including its opinion on the significance of the concerns and commitment for corrective action.

SUMMARY OF CONCLUSIONS

In preparation for the ROE, a summary of significant examination findings and exceptions, conclusions reached, and management's response and proposed corrective action, if any, is documented in a summary of conclusions document. It is based on the individual workprogram's working paper conclusion memos worksheets that were prepared during the examination. The document should cross-reference individual findings and conclusions comments to the workpapers.

The summary of conclusions form serves as a project management tool for reporting the status of examination findings and conclusions during the examination. Each finding should be cross referenced to the scope memorandum and supporting workpapers. On longer examinations, a copy of the summary of conclusions form containing preliminary information should be updated and made available to the safety and soundness EIC and IS examination manager periodically.

The IS EIC is responsible for the preparation of the summary of conclusions. In addition to current examination findings and conclusions, all unresolved exceptions from the previous examination should also be included. If a deficiency listed in the summary of conclusions is excluded from the ROE, the reasons for doing so must be stated. In addition, appropriate

notations should be made on the report to indicate any changes in the final ROE resulting from management's review.

EXIT CONFERENCE

The objective of the exit conference is to communicate clearly the examiner's findings, conclusions, and recommendations, and to obtain management's commitment to corrective action.

In concurrent examinations, the safety and soundness exit conference, and agenda, are arranged by the safety and soundness EIC. At the end of the IS portion of concurrent examinations, the IS EIC should review the findings and conclusions with the institution's IS management in an exit conference. This may be done in a separate meeting or as part of the safety and soundness exit meeting.

In stand alone institution and service bureau examinations, the IS EIC arranges the exit conference and prepares an agenda letter. The agenda letter should be signed by the appropriate manager and addressed to senior level management, preferably the chief executive officer. The agenda should include the main issues of the draft examination report. Possible attendees may include the chairman of the board of directors, chief executive officer, senior management responsible for IS, the IS examination manager, and other agency examiners. All potential attendees should be informed of the meeting time and location several business days before the meeting date.

Prior to the meeting, the IS EIC should review all material with lower and mid-level management of the institution. All disagreements on factual matters should have been researched and investigated prior to the exit conference. The meeting should never contain any surprises of a factual nature.

BOARD MEETING

In concurrent examinations, the safety and soundness EIC conducts the board meeting. The IS EIC should present the IS findings and conclusions for composite 4 and 5 rated institutions jointly with safety and soundness.

In stand alone institution and service bureau examinations, the IS EIC will present the ROE findings and conclusion at a board meeting for composite 4 and 5

rated institutions. The IS examination manager should attend these meetings as appropriate. The IS examination manager will use judgment in scheduling board presentation for other ratings.

IS ROE FORMAT

The IS report format and instructions contained in the 1996 FFIEC IS Examination Handbook should be used to prepare the IS ROE. (See Chapter 5 for additional information on report format and structure.)

The IS ROE report contains an Open Section which is distributed to the institution or service bureau, and an Administrative Section, which contains information for internal agency use only (see FFIEC issuance SP-1 in Chapter 25 FFIEC Policies for additional information). All significant findings and conclusions of an objective nature, including management comments, should be presented in the Open Section, (i.e., unsafe and unsound practices, noncompliance with statutes and regulations, and deficiencies in computer security and internal controls). Matters that are subjective or considered inappropriate for disclosure to the institution or service bureau being examined should be reported in the "Administrative Section" of the report.

In preparing the final IS ROE, examiners must consider the following and ensure that:

- Findings, conclusions, and comments are adequately communicated and are fully supported by adequate examination work.
- Technical terms, phrases, and acronyms are explained.

- Judgment and discretion are used in presenting findings, examiner conclusions, and concerns.

- Topics and content are organized logically and prioritized appropriately for senior management's attention.

SERVICE PROVIDER REPORT DISTRIBUTION

Upon completion of an IS examination of an independent servicer, distribution will be based upon the policies detailed in FFIEC issuance SP-1 (See Chapter 25 FFIEC Policies for additional information). The final

transmittal letter to the independent servicer's senior management will carry the signature of the appropriate agency personnel and address overall concerns. The ROE will be sent to the independent servicer's board of directors. The member agency initiating the letter will request that the board respond to the report within a specified time period, usually 30 days. For MDPS examinations, the transmittal letter should be approved by the appropriate supervisory office.

A copy of the independent servicer's ROE will be distributed by the IS manager of the authoring agency to involved FFIEC member agencies. Distribution, as authorized/required, will be made to serviced institutions by the responsible supervisory agency. The ROE should not be mailed to institutions until after the service bureau receives their copy of the ROE.

Agency management should track all copies of the independent servicer ROE. The Open Section is the main body of the report and is distributed to both the independent servicer and serviced institutions. The Administrative Section is confidential. Its distribution is limited to member agency management and other regulatory personnel. The report distribution policies and procedures will follow the guidelines contained in the FFIEC IS Examination Handbook.

An examination finding that an MDPS service bureau is in imminent danger of failure (usually a composite 5 rating), or otherwise threatens the safe and sound operations of any member institution, should be discussed promptly with district/regional staff and headquarters to determine the appropriate action.

ENFORCEMENT ACTIONS

Institutions with unfavorable examination ratings are presumed to warrant formal enforcement action. Enforcement actions will be initiated by the responsible member agency in accordance with that agency's internal policies in this area. Independent servicer's with a final composite 4 or 5 IS rating generally will require some type of enforcement action.